

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: EFIN, ELAB, JM
SUBJECT: REPORT BY REPRESENTATIVE OF THE FIRST NATIONAL
BANK OF CHICAGO LTD.

IN A CONVERSATION WITH EMBASSY OFFICERS, SENIOR ASSISTANT
MANAGER SIMON AMICH OF THE FIRST NATIONAL BANK OF
CHICAGO LTD. PROVIDED SOME FURTHER INSIGHT INTO THE
COUNTRY'S FOREIGN EXCHANGE AND LABOR PROBLEMS:

1. UPON SUSPENSION OF THE IMF STAND-BY IN JANUARY,
THE GOVERNMENT APPROACHED THE FIRST NATIONAL BANK OF
CHICAGO WITH THE URGENT REQUEST TO PROVIDE SOME BRIDGE
FINANCING TO TIDE THE GOVERNMENT OVER UNTIL A NEW
AGREEMENT WITH THE IMF COULD BE NEGOTIATED. SUSPENSION
OF THE STAND-BY HAD PREVENTED THE GOVERNMENT FROM
RECEIVING SOME US\$80 MILLION (IN IBRD AND COMMERCIAL BANK
LOANS AND IMF CREDIT TRANCHE) THAT THE GOVERNMENT HAD BEEN COUNTING
ON, INCLUDING THE \$32 MILLION FROM THE SIX-BANK
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INTERNATIONAL CONSORTIUM OF WHICH THE FIRST NATIONAL WAS
A MEMBER.

2. THE FIRST NATIONAL AGREED TO PROVIDE THE GOVERNMENT
OF JAMAICA US\$27 MILLION IN BRIDGE FINANCING TO BE REPAYED
IN FULL BY MARCH 23. IT WAS FULLY EXPECTED THAT THE
NEW IMF AGREEMENT WOULD BE APPROVED BEFORE THAT TIME.

IN EXCHANGE, THE GOJ TOOK OVER THE BANK OF CHICAGO'S LOCAL RETAIL LOAN PORTFOLIO (WHICH FIRST NATIONAL WAS ANXIOUS TO DISPOSE OF).

3. UNFORTUNATELY, THE GOJ WAS UNABLE TO MEET THE MARCH 23 DEADLINE FOR REPAYMENT OF THE \$27 MILLION LOAN. THE FIRST NATIONAL HAD NO CHOICE BUT TO ROLL IT OVER AND EXTEND IT TO JULY 3. IT IS UNDERSTOOD THAT IF AN IMF AGREEMENT IS CONCLUDED BEFORE THEN AND THE \$32 MILLION CONSORTIUM LOAN THEREUPON BECOMES AVAILABLE, THE GOJ WILL IMMEDIATELY REPAY THE FULL AMOUNT OF ITS LOAN TO FIRST NATIONAL.

4. MR. AMICH FEELS THAT THE JAMAICAN AUTHORITIES DID NOT FULLY GRASP THE SERIOUSNESS OF BEING IN DEFAULT ON A COMMERCIAL BANK LOAN. HE SAID THAT DEFAULT TO ONE BANK WOULD AUTOMATICALLY CAUSE ALL FOREIGN BANK OANS TO BE CALLED IMMEDIATELY. OF COURSE, THE BANKS WOULD NOT BE ABLE TO COLLECT; BUT THE CREDIT STANDING OF THE COUNTRY WOULD BE SO IMPAIRED AS TO MAKE THE OBTENTION OF FURTHER LOANS IMPOSSIBLE PENDING RESOLUTION OF THE PROBLEM.

5. WITH RESPECT TO LABOR MATTERS, MR. AMICH REPORTED THAT FIRST NATIONAL HAD REDUCED THE NUMBER OF ITS EMPLOYEES FROM 110 TO 55 IN RECENTMONTHS. EVEN SO, THE UNION WAS DEMANDING A 65 PERCENT WAGE INCREASE, WHICH THE LIMITED OFFICIAL USE

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BANK, GIVEN THE POOR PROFIT POSITION,, IS NOT IN A POSITION TO GRANT.

COMMENT: THE FACTS REPORTED BY MR. AMICH FURTHER CORROBORATE THE DESPERATE FINANCIAL AND ECONOMIC DIFFICULTIES CONFRONTING THE GOVERNMENT. THE COUNTRY HAS NO ALTERNATIVE BUT TO REACH AGREEMENT WITH THE IMF. IN ITS NEGOTIATIONS WITH THE FUND, THE GOJ OBVIOUSLY FINDS ITSELF IN A VERY WEAK BARGAINING POSITION. UNEMPLOYMENT REACHED AN ESTIMATED RECORD HIGH OF 27 PERCENT LAST OCTOBER AND MAY BE RISING FURTHER. YET, THE UNIONS DO NOT APPEAR TO BE IN A MOOD TO ACCEPT ANY RESTRICTION IN REAL WAGES. THE EXISTENCE OF A POWERFUL LABOR MOVEMENT WHICH IS SHOWING INDEPENDENCE FROM THEIR POLITICAL PARTY AFFILIATIONS WILL MAKE IT VERY DIFFICULT FOR THE GOVERNMENT (J.L.P. AND P.N.P) TO HOLD THE LINE ON WAGES. DEMANDS FOR WAGE INCREASES ARE ALMOST CERTAIN TO ACCOMPANY ANY FURTHER DEVALUATION. ON THE OTHER HAND, THE IMPACT OF HIGH WAGES ON PROFITS AND THE UNCERTAINTIES RESULTING FROM A STRONG LABOR MOVEMENT WILL CONTINUE TO DEPRESS THE OUTLOOK FOR THE PRIVATE SECTOR.

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